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Lessons from China's Economic Boom

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MOST Americans tend to view events in China as something happening on another planet. Thus, the historic peacetime conversion of China from Marxist and Maoist economic precepts to ideas and practices more akin to those of capitalist countries is regarded as an interesting development of no immediate and practical importance. In fact, China's turn down the "capitalist road" has set off an economic chain-reaction that will inevitably alter the international balance of power.

It's difficult to exaggerate the significance of the economic boom now under way in China. In 1984, according to estimates by the Central Intelligence Agency, its real gross national product increased by 13 percent, exceeding that in all other major countries. This brought China's average growth rate for the past four years to 8 percent, compared with 2.7 percent for the United States and 2.5 percent for the Soviet Union. The fact that China started from a far lower G.N.P. level than the superpowers subtracts only a little from the magnitude of its growth.

Since the economic boom has resulted directly from Deng Xiaoping's liberalization measures, the success of those policies has important political implications for the rest of the world. The ongoing conversion of China to a more pro-Western and pro-capitalist orientation represents a peacetime victory for our political and economic system. Indeed, this wildly favorable geopolitical development should be as shocking as the fall of China to the Communists in 1949, an event that shaped American attitudes and foreign policy for an entire generation.

It is already clear that the China boom will have major consequences for the world economy. These are some of the things it will do:

- Step up the pressure for change within Russia as Mikhail S. Gorbachev takes over as the party's General Secretary.
- Shift further the center of gravity of economic and political power to the Pacific Basin countries.
- Create vast new opportunities for

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trade and investment for American and other foreign companies, but under conditions that involve the transfer of technology.

- Intensify trade pressures on the United States at a time when the overvalued dollar is undermining the American competitive position.

- Undermine support in the United States for the arms race as a means of national power, as China's economy booms despite cutbacks in military expenditures.

There is no doubt that the boom is the direct result of the economic liberalization program. Since the adoption of the "self-responsibility" system in agriculture in 1978, China has doubled its output of food grain and is now the world's largest producer of wheat and cotton.

Following the success of the agricultural reforms, the urban sector is being permitted greater scope for private initiative and for the market determination of prices, wages and the allocation of resources. Workers are to get better pay for more work and more freedom to change jobs, and most enterprises are to be guided by the pursuit of profits. While opening up the country to foreign investment and the rapid importation of technology, Peking is vigorously pursuing the expansion of exports and imports.

The urban reforms have brought about a nearly instantaneous consumer-spending boom. Japan was the immediate beneficiary, avoiding an economic slowdown in last year's fourth quarter only through a steep rise in exports to China. China is now Japan's second-largest export market, following an astounding 47 percent increase in 1984. In January, Japan's exports to China recorded a year-to-year increase of 74 percent, including an 850 percent rise in television sets. Much of the consumer-spending boom in China has involved TV sets, washing machines, refrigerators and other electrical appliances that are streaming into the prosperous countryside.

China's dramatic success — combined with the expansion of trade with the capitalist countries — obviously poses both practical and ideological threats to the Soviet Union. As China's economic boom improves living standards while providing more economic freedom, the pressures on the Kremlin — either to make the existing economy work or to reform it —

are bound to grow, both within the Soviet Union and among the East European satellites.

In fact, since China's boom has resulted from measures undertaken to free up the economic system, it is an earth-shaking development from an ideological standpoint. To make matters even worse for Moscow, the latest liberalization measures have been accompanied by editorials in *The People's Daily*, the most important official newspaper, stressing pragmatism and attacking Marxist and Maoist orthodoxy as outmoded.

The China boom suggests several important political and economic lessons for the United States.

First, the American withdrawal from Vietnam was a great victory. We originally intervened in Vietnam to stop "Chinese expansion," leaving China little choice but to remain uncomfortably allied with the Soviet Union. After our withdrawal, China shifted decisively from the Soviet camp to the status of a "quasi-ally." And by late 1977, this train of events had led to the emergence of Deng Xiaoping as China's paramount leader.

In striking contrast to military policies here, the Chinese have trimmed their military budget and reduced the size of the People's Liberation Army. While thousands of junior officers have already been retired, Peking has announced plans to put out to pasture more than 80,000 officers over the next few years, including 47,000 by the end of 1986. Forty senior officers with the rank of lieutenant general or higher were placed in retirement last year.

Military factories are being converted at least partly to the production of civilian products. All this is going on even though, according to estimates by the Pentagon, Soviet military forces in the Far East have been increased to 52 infantry divisions, 1,820 tactical aircraft and 135 SS-20 missile launchers.

These developments have a great deal of relevance to the budget-policy decisions facing the United States. While it is obvious that our strategic position is far stronger today than when China and the Soviet Union were at least nominal allies, the current policy in Washington is to "spend the Russians into the ground" in the arms race. In actual practice, how-

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ever, the economic indications are that we are spending ourselves into the ground with budget policies that are destroying our competitive position through an overvalued dollar.

In our budget policies, therefore, it may be argued that we are fighting "the wrong war, at the wrong time, in the wrong place," as General Omar Bradley once said about the Korean War. Indeed, what's happening in China suggests that the cold war is really over simply because the United States has already won it. Our major effort should be aimed at rebuilding our competitive position as we confront the economic and technological revolution that is sweeping the Pacific Basin countries, now including a billion Chinese. ■